

Government of the District of Columbia
Office of the Chief Financial Officer



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Natwar M. Gandhi
Chief Financial Officer

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: APR 18 2007

SUBJECT: Fiscal Impact Statement (Addendum): "District of Columbia Public Education Reform Amendment Act of 2007"

REFERENCE: Bill Number 17-01, April 3, 2007 Committee Print

Conclusion

Funds are sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the D.C. Public Education Reform Amendment Act of 2007, as marked up by the Committee of the Whole on April 3, 2007.

The proposed legislation, as marked up by the Committee of the Whole, would reduce the financial impact of the Bill 17-01 from \$28.4 million to \$27.1 million in FY 2008, and from \$86.5 million to \$82.6 million for the FY 2008 – FY 2011 period. The Mayor's proposed FY 2008 Budget allocates up to \$30.5 million in a special State Education Activity Fund for funding the costs of any reorganization of state education functions or public education initiative within the District of Columbia.

Background

The following changes in the Committee Print have significance with respect to the financial impact of the proposed Bill:

1. Annual External Review of the D.C. Public Schools: Title II, Section 204 (b) requires the Mayor to submit to the Council by September 30 of each year beginning in 2008 an annual evaluation of the D.C. Public Schools by an independent evaluator. The review would include an assessment of the business practices, human resources operations, all academic plans and the annual achievements made as measured against the benchmarks submitted the previous year by the Mayor using reliable data.
2. Funding of the Office of Facilities Management: Title VII, Section 702(c) allows the Office of the Facilities Management (Public Education Facilities Management

Construction Authority in the original Bill) to be funded annually out of the Public School Capital Improvement Fund.

3. Review of charter schools every five years: Title VIII Section 802 reduces the frequency of charter school reviews from every 3 years in the original Bill to every 5 years, which is the current practice.

Financial Plan Impact

1. Annual External Review of the D.C. Public Schools: Title II, Section 204 (b) requires the Mayor to submit to the Council an annual evaluation of the D.C. Public Schools by an independent evaluator. Based on similar studies commissioned by various organizations of the D.C. government, the estimated annual cost of such a review is \$500,000. Because the original Bill did not involve reporting requirements as such, this change will increase the net negative financial impact of Bill 17-01 by \$0.5 million in FY 2008 and \$2.1 million for the FY 2008 – FY 2011 period.
2. Funding of the Office of Facilities Management: Title VII, Section 702(c) allows the Office of the Facilities Management (Public Education Facilities Management and Construction Authority in the original Bill) to be funded annually out of the Public School Capital Improvement Fund. The original Bill authorized this office to use only the operational funds in the DCPS budget allocated to facilities management and maintenance functions.

It is important to note that to implement this funding mechanism, the School Modernization Financing Act of 2006 (D.C. Law 16-123; D.C. Official Code § 38-2971) must be amended to allow for the use of Public School Capital Improvement Funds towards financing of the operational aspects of the Office of Facilities Management. Current D.C. Code limits the use of funds for capital modernization expenses of school facilities only (D.C. Code § 38-2971.03). Additionally, the EOM would need to specify annually the amount of sales tax revenues that would be allocated to pay for the operations of the Office of Facilities Management, so these could be segregated from the PAYGO funds.

Once these legal and financial requirements are met, the funds in the Public School Capital Improvement Fund could finance almost all the costs associated with the new Office of Facilities Management. The original fiscal impact for FY 2008 calculated the cost at \$1.8 million in salary increases (\$1.2 million), severance costs (\$0.5 million) and unemployment benefits (\$0.1 million). The Capital Improvement Fund could now pay all of these costs except the unemployment benefits (which must be paid out of the District's Unemployment Compensation Fund). This reduces the net negative financial impact of our original estimate for this Title by \$1.7 million for FY 2008 and \$5.6 for the FY 2008-FY 2011 period.

If the legal and financial requirements are not met, the proposed legislation, as marked up by the Committee of the Whole, could significantly increase the financial impact.

3. Review of charter schools every five years: Title VIII Section 802 reduces the frequency of charter school reviews from every 3 years in the original Bill to every 5 years, which is the current practice. With 3-year reviews as prescribed in the original Bill, the eligible chartering authority (DC Public Charter School Board) would have had to review 25 school campuses annually at \$247,000. With a 5-year review cycle, as prescribed in the Committee write-up, the estimated annual cost is at \$156,000 annually, resulting in a reduction in the net negative financial impact by \$91,000 in FY 2008 and \$0.5 million in the FY 2008- FY 2011 budget and financial plan.

Table 1 summarizes the change in the estimated financial impact of Bill 17-01.

Table 1- Estimated Financial Impact of Bill 17-01 (Revised based on the April 3, 2007 Committee Write-up, in \$ millions)*					
	FY 2008	FY 2009	FY 2010	FY 2011	4-Year Total
Original Net Negative Impact	\$28.4	\$20.9	\$18.3	\$18.9	\$86.5
Changes in cost estimates**					
<i>Annual Independent Review of the DC Public Schools</i>	0.5	0.5	0.5	0.5	2.1
<i>Office of Facilities Management funded by Capital Improvement Fund</i>	-1.7	-1.3	-1.3	-1.3	-5.6
<i>5-year review cycle for charter Schools (costs to chartering agency)</i>	-0.1	-0.1	-0.1	-0.1	-0.4
Total change in cost estimates	-1.3	-0.8	-0.9	-0.9	-3.9
Revised Net Negative Financial Impact of Bill 17-01	\$27.1	\$20.1	\$17.4	\$18.0	\$82.6

*The cost calculations incorporate a 3% cost of living/inflationary adjustments starting FY 2009.

** Displayed totals differ from actual totals due to rounding.